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FINANCIAL DIGEST

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FOR BOOM THE BELL TOLLS

If there was any doubt before that the U.S. economy has entered a recession, there should be none today. The economic statistics that depict the course of the "real" economy all are pointing down. And this clearly predates Washington's March 14-15 anti-inflation package: Given the immediate effects of the restraints on credit announced by the banks because of measures invoked by the Federal Reserve, it is hard to see how the decline has done anything but intensify during the latter half of March.

To be sure, preliminary estimates for the first quarter's gross national product adjusted for inflation suggest that it may have risen somewhat compared with the fourth. If this turns out to have been the case (the government will not officially release data on the first quarter's GNP until the third week in April), it will be largely because of what happened in January. Consumer spending, which accounts for two thirds of the GNP, was said to have risen sharply in January compared with December, seasonally adjusted. Herein lies the problem: January was an unusually mild month—especially in comparison with the previous several Januaries, when the weather was quite severe. Plainly, as explained last month (Financial Digest —February 15, 1980), such a development would tend to make the month's statistics look stronger than they really were.

Seasonal factors notwithstanding, it would appear that the economy has been progressively weakening over the past couple of months. Consumer spending adjusted for inflation fell in February as did buying power, in the wake of the second consecutive monthly rise of 1.4 per cent in consumer prices. New-home starts last month were at their lowest rate since 1975, while domestic auto sales continued to weaken. Not surprisingly, inventories have begun to pile up. While the current-dollar ratio of inventories to sales for manufacturing and trade declined to one of its lowest points in recent years, in terms of actual units of goods unsold compared with units of sales, the I-S ratio in the latest month rose again, reaching its highest point since the middle of the 1973-75 recession—and well above the level that prevailed when that recession first began.

THE ECONOMY STEPS INTO A HOLE

A glance at the weekly data that measure the course of the economy provides further evidence that business is contracting sharply. After registering yearly gains averaging 3½ per cent through early March, production of paperboard—a commodity that is an excellent coincident indicator of the economy since it is used for packaging—has started to decline. Falling 1.1 per cent in the week of March 8, output of paperboard slipped two per cent in the week of March 15. Production of steel has been in a decline since the beginning of this year, but the yearly percentage changes appear to be getting larger. In the first three weeks of this year, steel output fell an average of 4.4 per cent compared with the year before; in the most recent three weeks the decline has more than doubled to an average of 9.5 per cent.

Output of bituminous coal, which had registered year-over-year gains as high as 21 per cent earlier this year, is now barely two per cent above last year. Electric power output has turned up after falling for this year's first eight weeks, but the latest week's increase is only 1.4 per cent compared with the same week a year ago. Production of new cars has fallen consistently compared with last year, and at last count was nearly 29 per cent below comparable year-ago levels. Truck output is off by 60 per cent. The protracted decline in housing starts has caused output of lumber to fall steeply, with the latest week's production down nearly nine per cent from last year.

(continued)

SELECTED FEDERAL RESERVE DATA

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/19/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123.864	+1.355	+ 9.967
Member Bank Borrowings	3.001	— .438	+ 1.977
Float	5.662	+1.083	+ .207
Total Reserve Bank Credit	137.227	+2.182	+10.184
Treasury Deposits with Federal Reserve Banks	2.514	— .426	— .359
Currency Outside Banks	112.437	+1.439	+ 9.682
Member Bank Reserves:			
Required	43.307	+ .940	+ 2.962
Excess (Deficiency)	.211	+ .072	+ .065
Total Reserves Held	43.518	+1.012	+ 3.027
Net Borrowed Reserves	2.635	— .526	+ 1.880
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	76.155	+ .049	—16.436

Monetary Aggregates†		% Change Since Previous Period*	% Change Since Year Ago
M1-A	375.10	— 15.4	+ 6.5
M1-B	391.9	— 17.0	+ 7.7
M2 (Feb. '80)	1,546.7	+ 11.4	+ 9.5
L (Jan. '80)	2,156.4	+ 8.9	+ 11.3

†Seasonally adjusted. *Seasonally adjusted annual rate.

NEW YORK MONEY MARKET

Offering Rates 3/28/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.30%	14.80%	13.90%
*Federal Agencies	16.90	16.17	15.75
*Project Notes—Tax Free (46% Taxable Equivalent)	13.88	16.20	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	18.05	18.35	17.40

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	15.50%	Apr.	16.50%
15- 29 days	15.75	May	16.60
30- 59 days	16.75	June	16.90
60- 89 days	16.50	July	16.90
90-119 days	15.00	Aug.	16.80
120-179 days	15.00	Sept.	16.45
180-239 days	13.50		
‡Industrial Paper—Prime			
30- 89 days	16.55%	†Federal Funds	
90-120 days	16.88	Effective Rate	19.75%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79	$ 2,457	$ 2,397	$ 2,235
Gross National Product (1972 Dollars)*	4th Q'79	$ 1,440	$ 1,433	$ 1,427
Percent Change, Annual Rate	4th Q'79	2.0%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Feb. '80n	16.8%	16.8%	13.2%
Change in Producer Prices*	Feb. '80	18.0%	19.2%	13.2%
Civilian Employment (Thousands of Persons)†	Feb. '80	97,953	97,804	96,496
Unemployment as % of Civilian Labor Force†	Feb. '80	6.0%	6.2%	5.7%
Personal Income*	Feb. '80	$ 2,052	$ 2,045	$ 1,851
Leading Indicators Composite Index (1967=100)†	Jan. '80	135.1	136.0	142.6
Industrial Production Index (1967=100)†	Feb. '80	153.0	152.7	152.0
Net Change in Consumer Installment Credit†	Jan. '80	$ 1.37	$ 1.35	$ 3.07
U.S. Merchandise Trade Balance†	Jan. '80	—$ 3.60	—$ 2.92	—$ 3.26
Plant and Equipment Expenditures*	2nd Q'80	$193.83(a)	$189.32(a)	$173.48
Private Housing Starts (Thousands of Units)*	Feb. '80	1,334	1,424	1,469
New Construction Expenditures*	Jan. '80	$ 246.1	$ 242.2	$ 212.3
Total Business Inventories†	Jan. '80	$ 431.3	$ 427.4	$ 385.2
Total Business Sales†	Jan. '80	$ 311.8	$ 302.5	$ 274.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (3/12/80)	93,454	— 593	— 555
New York City (3/12/80)	20,375	— 176	— 6,873
Commercial Paper (3/12/80)	118,703	+ 338	+29,253

BANK LOANS

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/12/80)	160,394	+ 751	+24,376
New York City (3/12/80)	47,461	+ 159	+ 8,433

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/12/80)	401,798	—1,996	+54,378
New York City (3/12/80)	90,386	—1,698	+13,506

FINANCIAL MARKETS

	Friday 3/28/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Yields:			
90-Day Bills	15.42%	+ .49	NA
180-Day Bills	16.41	— .03	NA
Longest Bills	15.90	— .02	NA
15s 3/31/82	14.19	NA	
14¼s 3/31/84	13.68	NA	
10¾s 11/15/89	12.70	+ .04	
11¾s 2/15/10	12.35	+ .13	
Municipals:			
Bond Buyer—20 Bond Index* (3/27/80)	9.44%	+ .24	+ 3.16
Blue List Total ($ Million)	$ 441	—$ 43	—$ 537
30-Day Visible Supply ($ Million)	$ 894	—$ 121	—$ 287
Total	$1,335	—$ 164	—$ 824
Corporates:			
Moody's Aa Composite (3/27/80)	13.77%	+ .37	+ 4.17
Money Mgr.—30-Day Supply ($ Million)	$1,560	—$ 80	+$ 120
Stocks:			
Dow-Jones Averages			
Industrials	777.65	— 7.50	— 84.53
Transportation	242.21	— 7.89	+ 17.04
Utilities	97.73	— 3.15	— 6.46
65 Stocks	278.82	— 5.64	— 13.55
Standard and Poor's 500 Stocks	100.68	— 1.63	— .91
N.Y.S.E. Composite Index	56.82	— 1.42	— .30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,158	+ 8,902	+15,170

*46% Taxable Equivalent 17.48%

INTERNATIONAL RATES

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/28/80	Week Ago
Overnight	18.38%	16.00%
1 month	18.56	18.06
3 months	19.38	18.94
6 months	19.31	18.88
1 year	17.75	17.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.95%	14.00%
Long Term (7 to 15 yrs.)	13.50	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening 3/28/80	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03226	30.99
Canada	.8428	1.1864
Denmark	.1677	5.9610
France	.2245	4.4540
Germany	.5181	1.9300
Italy	.001119	893.00
Japan	.004000	249.95
Mexico	.04372	22.87
Netherlands	.4766	2.0980
Switzerland	.5452	1.8340
U.K.	2.1720	.4604

Not surprisingly, there has been a sharp cutback in freight revenue ton miles for the nation's airlines, as well as in monthly truck tonnage. Revenue ton miles in January fell three per cent compared with last year while intercity truck tonnage was off 16½ per cent. And this is in a month of milder than normal weather compared with January, 1979, when the weather was severe.

All of this slowing in key indicators of production, transportation, and sales is beginning to take its toll on the labor markets. Initial state unemployment insurance claims have risen every week this year compared with the same week in 1979. As of mid-March, the number of initial claims was up by more than 19 per cent compared with the same period a year ago. Not surprisingly, hiring intentions for the coming months are down sharply, according to Manpower, a temporary-help firm. Since consumers appeared to be running out of steam well before the economy took this recent dive, it is difficult to see how further sharp cuts in spending can be avoided from here on out.

SOME EARLY SIGNS OF SLOWING INFLATION . . .

There is a set of weekly statistics that is producing what may eventually be regarded as good news. This is the weekly series produced by the Labor Department that describes prices of industrial raw materials and foodstuffs. In the past three weeks there has been a marked decline in industrial materials' prices, in sharp contrast to the steep runup that occurred earlier this year. The drop could reflect the high rates of interest available in the United States, which undoubtedly drew money out of metals and back into dollars and dollar-denominated instruments (Financial Digest—March 17, 1980). But it might also be the start of a significant change in the balance between suppy and demand. Foodstuffs' prices have been plunging, too, and since they had been fairly stable throughout 1979, their current reading is the lowest since mid-August 1978. The significance of these declines should not be underestimated: If there is to be any slowing in the rate of inflation at the producer and consumer levels, it must first show up in these indexes of sensitive commodities' prices.

Meanwhile, it is almost certain that the inflation rate statistics and inflationary expectations will deteriorate significantly in 1980 in Europe and Japan. While the most apparent source of price instability has been the 130 per cent jump in crude oil prices since the end of 1978, rising hourly compensation rates, sluggish productivity growth and depreciating currencies will all contribute to the generally dismal inflation performance expected this year.

. . . BUT NOT IN EUROPE OR JAPAN

Plainly, the challenge now confronting the public policy authorities is to prevent, or at least minimize, the pass-through of rising oil prices into nominal wages and incomes or, in other words, not accommodate the inflationary impact of soaring oil prices through expansive monetary policies. In addition, most countries are seeking to avoid a further, currency-depreciation-induced runup of import prices--beyond the already substantial jump in energy prices—through a variety of techniques designed to protect both directly and indirectly the external strength of their currencies. Among the most commonly employed have been the general tightening of monetary policies, frequent central bank discount rate adjustments, cutbacks in public spending in some countries and massive intervention in the foreign exchange markets by almost all.

Unfortunately, the implementation of these policies has yet to be successful in moderating either domestic inflationary pressures or imported price inflation. Consumer prices are advancing at an approximately 20 per cent annual rate in the United Kingdom—where inflationary pressures have already been dampened by an appreciating currency—and Italy. In Japan, beset by the twin difficulties of an almost total dependence on dollar-denominated, imported energy products and a steeply sagging yen, producer prices are now rising at better than a 21 per cent annual rate. Nor are the traditionally higher-inflation countries the only ones experiencing sharply rising price levels. Consumer prices advanced by more than five per cent in 1979 in Switzerland, while in Germany, most often associated with prudent monetary policies and a strong mark, rising oil prices have led to a doubling of the consumer price inflation rate, from 2.5 per cent in 1978 to 5.5 per cent currently.

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